

2015 Holiday Outlook

Millennials matter; experience is essential

October 2015



How will the 2015 holiday shopping season play out? What will shoppers buy? And why? How much will they spend? On what? And how are retailers staying ahead of the game this holiday season?

PwC's *2015 Holiday Outlook* offers a view into consumers' mindset and likely shopping behaviors over the next few months, as well as into the expectations and planning strategies of retailers and manufacturers. Our national survey of 2,000-plus consumers as well as 230 retailers and manufacturers provides insights about:

- Shoppers' purchasing decisions
- The factors driving those decisions
- Current shopping channel trends

In this report, we analyze consumer-reported data—and overlay the findings with additional PwC research and analysis—to uncover key insights and implications for retailers and manufacturers.



How are retailers staying ahead of the game this season?

10 trends



1. *Holiday spending: glass half-full or half-empty?*

Consumers are cautiously optimistic this holiday season, with 53% saying they will spend about the same as last year and 32% saying they'll spend more. Never before has there been more fragmentation among consumer groups.

2. *Income levels drive survivalists and selectionists*

Discounts are most important to shoppers with household incomes of less than \$50,000, while those with household incomes of more than \$50,000 have a more distinctive brand appetite.

3. *Millennials matter*

Digitally savvy, fiercely brand-loyal millennials—who represent a 75-million strong, \$63 billion market—will spend proportionately more of their overall holiday budget on travel and entertainment than shoppers 35 and over. They will also spend more on themselves than older shoppers will.

4. *Savvy shoppers choose discounts, promotions*

Price wars continue as holiday shoppers demand low prices, deals, discounts, and promotions this holiday season—just as they did last year; free shipping and returns play a key role in their purchasing decisions.

5. *Beyond Black Friday . . . the long reach of the shopping season*

Starting in late October, holiday shopping continues to spill over into the entire month of November. More spending (29%) will occur before the start of Black Friday week than during (26%); retailers offer deepest discounts during Black Friday week. Meanwhile, 66% of millennials plan to complete the majority of their holiday spending before December 1.

How are retailers staying ahead of the game this season?

10 trends



6. *The power of brand*

Consumers forge deep connections with visionary, innovative companies that are unafraid of challenge—brand leaders they can trust. Millennials and Generation Z are even more brand-savvy and loyal than older shoppers.

7. *It's the interaction; not the transaction*

Shoppers are thirsty for engaging, social, interactive in-store experiences; it's what keeps them coming back. In essence, retailers must surprise and delight millennials and selectionists; both sets of shoppers crave experiences.

8. *Digital growth continues its upward trajectory*

Shoppers want coupons and in-store price-matches on their mobile devices but have not yet embraced the move to mobile payments. Meanwhile, retailers expect a 16% year-on-year increase in digital revenues this holiday season. We believe leading retailers will experience a 40% to 50% year-on-year increase in digital revenues.

9. *What role does cybersecurity play?*

42% of consumers say their purchasing decisions are affected by a security breach. Millennials are even more concerned (52%) than shoppers over 35 (38%).

10. *It's a mad, mad world*

Consumers, retailers, and manufacturers are acutely aware of the impact of economic factors on holiday shopping. How will ongoing volatility in the equity, currency, and commodities markets—in the broader context of a complex geopolitical landscape—affect the holiday shopping season?

Holiday spending: glass half-full or half-empty?

Cautious optimism wins out

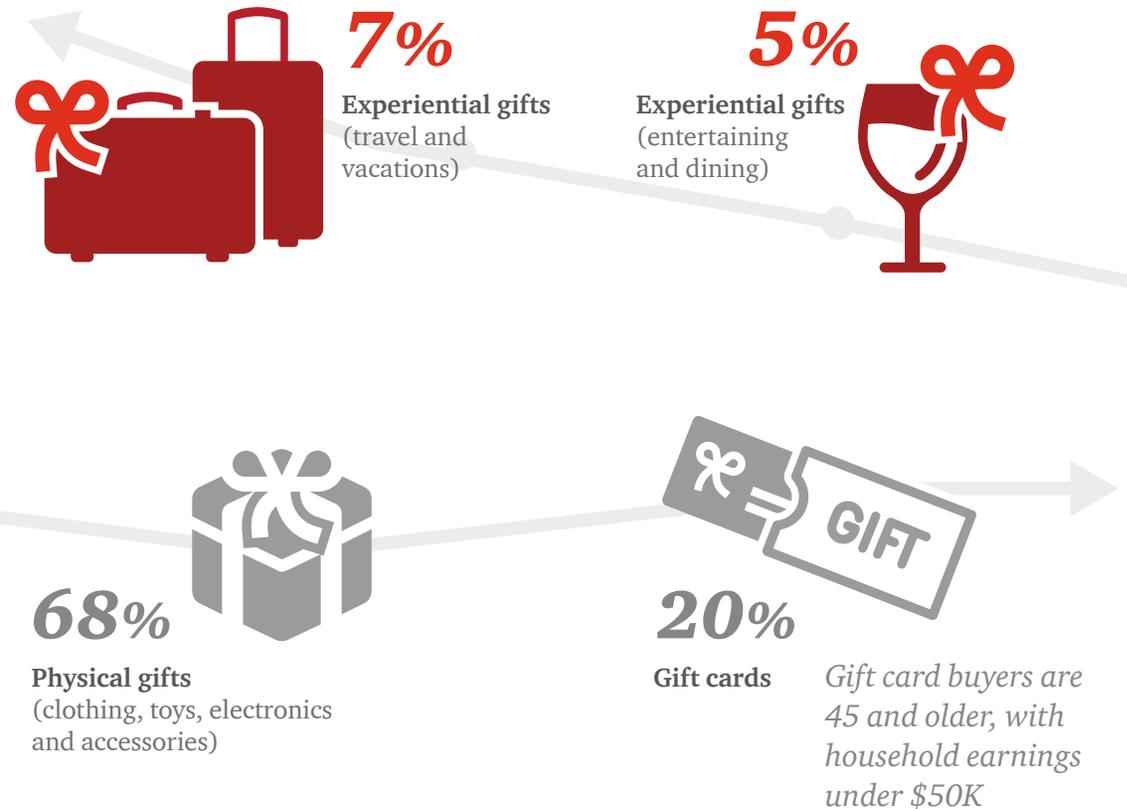
Consumers are cautiously optimistic this holiday season, with 53% saying they will spend about the same as last year and 32% saying they'll spend more. Of all age groups, young millennials—aged 18 to 24—are the most optimistic. For more on millennials, see page 7.

Overall, consumers plan to spend \$1,018 on gifts, travel, and entertainment; in the spirit of the holiday season, some 55% of spending represents gifts purchased for others.

Gift cards are popular with the 45+ crowd and with households earning less than \$50,000 a year; gift card purchases will account for 20% of overall spending on gifts.

While the bulk of spending on gifts—68%—will go toward physical gifts, millennials and selectionists (shoppers with household incomes of more than \$50,000) are driving a growing trend toward experiential gifts such as travel and entertainment. This year, experiential gifts will account for 12%.

Selectionists and millennials are driving the **growing trend of experiential gifts...** while **survivalists** and **those over 45** are playing it safe with **more traditional gifts**



Q: What types of gifts are you most likely to buy this holiday season?
Base: 2,017

Income levels drive survivalists and selectionists

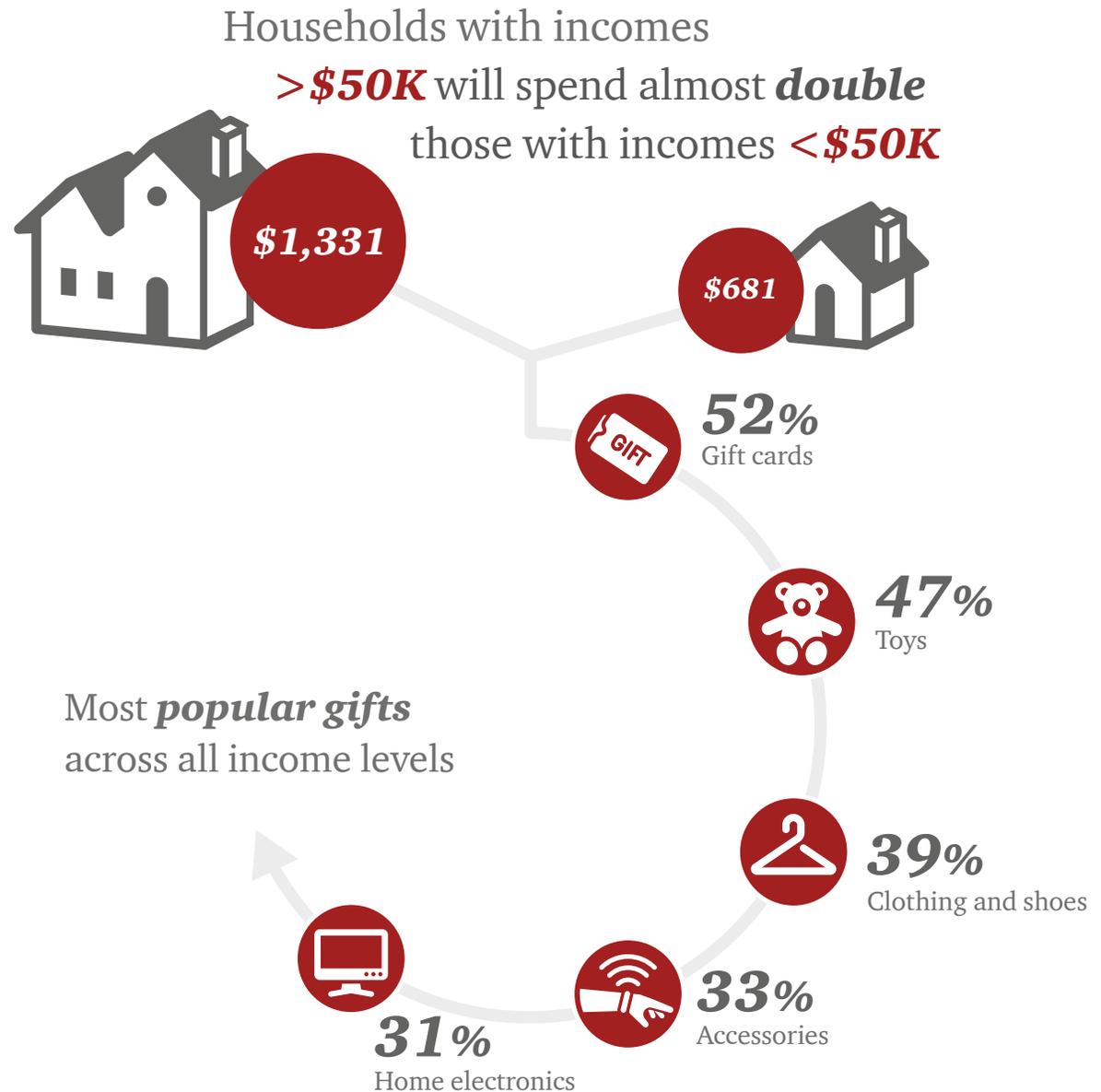
Low prices versus distinctive brands

Retailers are dealing with two very different categories of shoppers. Survivalists with household incomes of less than \$50,000 want the best deals. They believe the economy isn't as robust as last year; consequently, they will spend *less* this holiday season than they did last year, with a preference for gift cards. This group is more likely to shop for deals throughout the holiday shopping season, mostly in-store.

Meanwhile, selectionists with household incomes of more than \$50,000 have a distinctive brand appetite and are more likely than others to spend on travel, entertainment, and the latest in personal electronics. Avid online shoppers, they plan to spend slightly more this holiday season as last year, mostly after Black Friday week through Christmas.

While millennials might fall into either of these categories, overall, they will spend *more* this holiday season than they did last year in their quest for diverse new experiences. For more on millennials, see page 7.

The most popular items this holiday season will focus on health and wellness, athletic leisure, and innovative products, and will fall within the following categories: gift cards, toys, clothes and shoes, accessories, and home electronics.



Millennials matter

They prefer experiences and adventure to physical gifts

Millennials (aged 18-34)—who represent 75 million consumers—are the retail bonanza this holiday season. Almost 60% of them will shop online or in-store on Thanksgiving Day, compared with a third of shoppers 35 and older. And they are primed to spend more this holiday season than they did last year.

Best of all: millennials love to shop! Almost 70% of them agreed with the statement “I enjoy holiday shopping,” compared with 53% of older shoppers. And while their overall budgets will be 24% less than that of older shoppers, they nevertheless represent a vast, enthusiastic demographic for retailers to engage with.

In fact, they will spend a total of \$63 billion this holiday season. And they crave diverse experiences: 52% of their holiday spending will go toward experience-related purchases such as travel and entertainment, versus 39% for older shoppers.

Said one millennial shopper, “My friends and I are all so busy. We don’t see each other much. So a great holiday gift is just getting together for dinner or a show.”

Millennials spend proportionately more of their holiday budget on **travel** and **entertainment** than those 35 and over



47% of **millennials** will spend more this holiday than they did last year, compared to **25%** of **older shoppers**



Millennials



35 and over

*“I’m trying to convince my family to go on a ski trip . . . so I’m actually pitching the idea that we don’t do many gifts.”
—millennial shopper*

They also like to start early. Some two-thirds of millennials will be done with the bulk of their holiday shopping by December 1. In fact, 37% of millennials expect to do the majority of their shopping Black Friday week, while only 21% of over-35 shoppers expect to.

And millennials want it now. They are willing to pay more for next-day delivery, sometimes up to four times more, far higher than older shoppers. Which might well account for the plethora of last-minute delivery services in urban hubs nationwide since millennials prefer urban living more than earlier generations did at similar ages.¹

Considerably more digitally savvy than the over-35 set, more than half of millennials use their mobile phones to search for products and services, receive coupons, and track shipments; only a third or so of over-35 shoppers do.

*Millennials **spend close to double** the proportion of their overall holiday budget on themselves as **older shoppers do***



24%
Millennials



15%
35 and over

*Millennials want to **see, touch, and feel** the merchandise but don't always need to take it home with them—as long as it's **shipped for expedited arrival**. Upshot: no longer do retailers need large stores of inventory on hand.*

Interestingly, millennials ranked online shopping lower on their list of preferred channels—after department stores, mass merchandisers, and specialty stores—than older shoppers. This is in keeping with their thirst for experiences. They want to be able to see, touch, and feel the merchandise. However, they don't always need to take it home with them—as long as it's shipped for expedited arrival.

And they want interaction. They like receiving real-time personalized offers via in-store promotions. Their preferences indicate that millennials have completely integrated the physical and the digital for an omnichannel experience.

While the over-35 set spends a larger proportion of their holiday budget on family, millennials spend proportionately more overall on themselves and their friends. In fact, they spend close to double the proportion of their overall holiday budget on themselves as older shoppers—24% to 15%.



Savvy shoppers choose discounts, promotions

Free shipping figures prominently in purchasing decisions

All shoppers love a great bargain. In fact, the majority of holiday shoppers surveyed said price is a major factor influencing their holiday shopping decisions, followed by deals and promotions.

However, differences exist between survivalists and selectionists: 90% of survivalists said price is the number one factor influencing their holiday shopping decisions, while nearly 60% of higher income selectionists picked quality as a major influencer.

E-mail discounts are popular with about half our shoppers, while another 41% prefer printed coupons. Given the array of choices, a negligible minority prefer coupons via text, social media, and apps.

Shipping figures prominently in online purchasing decisions: 83% of shoppers said standard free shipping would make them extremely likely to make a purchase. However, only 21% of retailers plan to offer it without a minimum purchase, 43% have a minimum purchase requirement, and 36% do not plan to offer free shipping at all this holiday season. Retailers might well generate additional sales by bridging this gap.



Meanwhile, free returns, both in-store and online, also play a role in shopping decisions: 67% of shoppers want to return online purchases in-store.² And 54% said free shipping on returns would increase the likelihood of a sight-unseen purchase; however, 43% of companies do not offer free return shipping.

As with free shipping, free returns can offer additional value to customers this holiday as they hunt down the best deals. Retailers have a choice to make as they weigh the benefits of fueling digital growth against the costs of offering these shipping options.

***Free shipping** plays a role in competing for shoppers this holiday season . . . but retailers have to get the **economics** right*



Beyond Black Friday . . . the long reach of the shopping season

Retailers are conjuring up creative ways to excite, engage, and attract shoppers

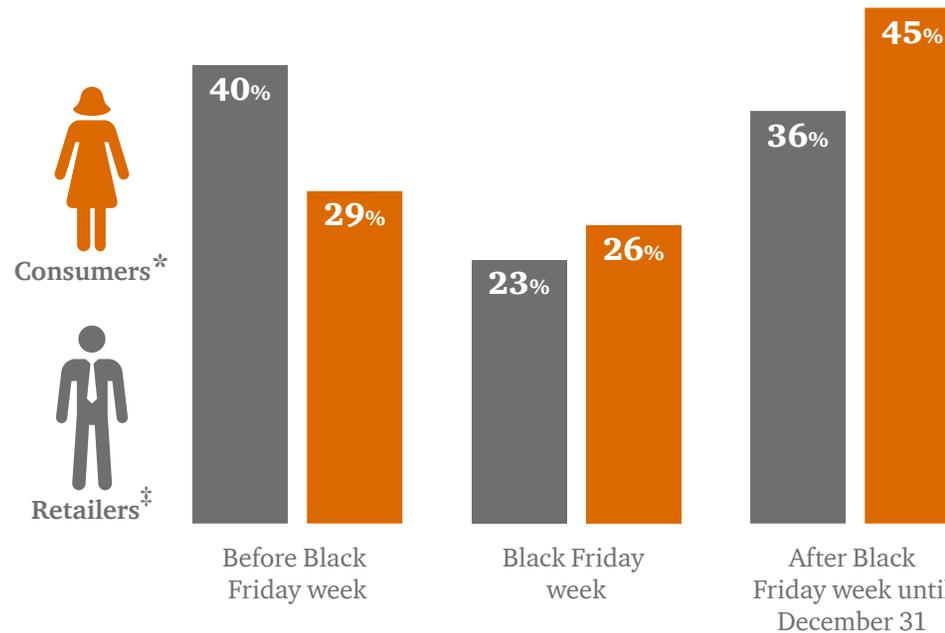
The explosion of online shopping options over the last decade has disrupted the traditional holiday shopping season, forcing traditional retailers to expand and diversify their holiday strategies—as shoppers demand nothing less than anytime, anywhere shopping.

All the anticipation around and build-up to the Black Friday “event” is now a thing of the past, replaced by shoppers who seek the best deals throughout the season.

In this new age of holiday shopping, retailers are conjuring up creative ways to excite, engage, and attract shoppers—from wooing them with white-glove service to teaming up with banks to offer financing on big-ticket items.



The Black Friday “event” is a **thing of the past**; more shopping occurs **before** and **after** Black Friday week



In anticipation, retailers are conjuring up **creative ways** to **excite**, **engage**, and **attract** shoppers all season long

*When consumers say they'll shop
‡When retailers expect consumers to shop

*“I’ve tried Black Friday in the past . . . it was miserable and I will never do it again.”
—survey respondent*

Meanwhile, the ever-expanding holiday shopping season continues to spill over into the entire month of November, starting in late October. Consumers will complete more holiday shopping (29%) before the start of Black Friday week than during (26%).

However, 45% of consumers' holiday shopping still occurs during December—roughly matching retailers' expectations of 36% of overall holiday transactions. Fewer retailers offer the highest level of discounts after Black Friday week through Christmas Day (than during Black Friday week)—most likely because as shoppers realize their deadline is approaching, they are willing to compromise on price.

On Thanksgiving Day, the vast majority of shoppers—80%—will shop online (early morning and after the big meal); only 20% of shoppers will venture out to stores.



The power of brand

Forging ongoing, long-lasting connections from a young age

An overwhelming 86% of consumers will only shop brands they trust: visionary brand leaders who take risks, embrace new challenges, and excite the imagination.³ Millennials are particularly loyal to these innovative brand leaders who are unafraid to take risks.

In fact, millennials are twice as likely to shop brand leaders than older shoppers, energized by the thrill of innovation. Digitally savvy, they discover new and trending products via social media by searching for brands with a distinctive point of view.

Generation Z is even more brand-savvy. These young consumers' awareness of entertainment, computer, mobile, gaming manufacturers, and social media brands is upwards of 80%, while their interest in particular hardware and entertainment products is as high as 40%.



of consumers pick
retailers whose **brands**
they **trust**

*“Having the **number one position** in a brand in a product category is a defensible moat around the business during tough economic times. People remember the **brands**; **brands pull people into stores.**”⁴*

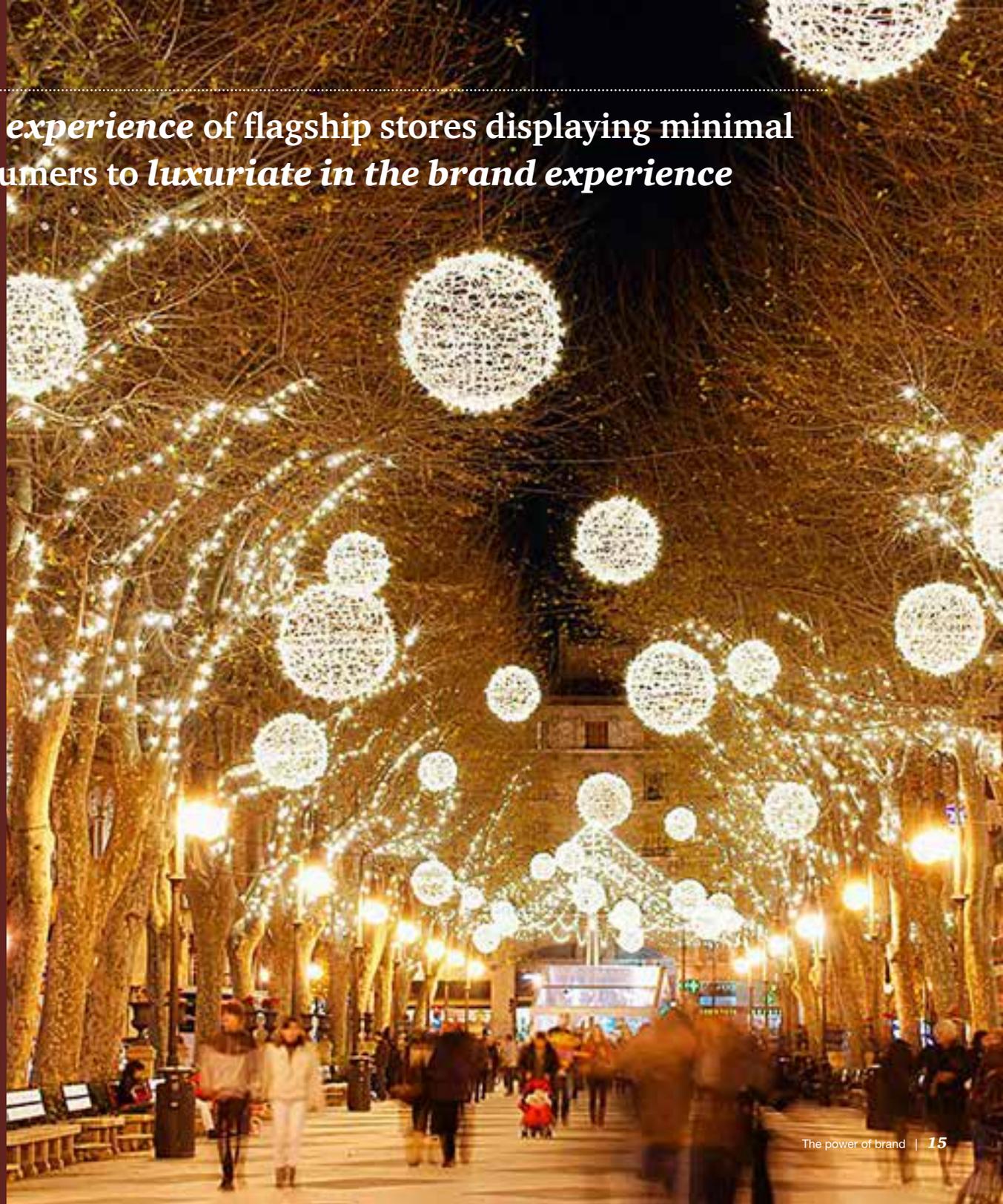
—James E. Lillie, CEO, Jarden Corp.

An *immersive brand experience* of flagship stores displaying minimal inventory invites consumers to *luxuriate in the brand experience*

As with millennials, their propensity for social media makes them excellent candidates for messaging about their favorite brands.⁵

So real is the brand value proposition that when shoppers trust a particular brand, their loyalty extends throughout its entire product line and through holiday purchasing decisions.

Thus, in an era of intense competition and disruption from online upstarts—some of whom have morphed into omnichannel brands (by complementing their digital popularity with a physical presence) with fiercely loyal followers—traditional retailers are well-advised to continually nurture their brand equity.



It's the interaction; not the transaction

Create a world that keeps shoppers coming back for more

Almost 60% of consumers will shop in-store this holiday season because they want to see, touch, and try the merchandise. Although they don't need to take it home with them—as long as it's shipped for expedited arrival. In fact, so many shoppers want an in-store experience that some previously online-only retailers have started opening up physical stores.

A distinctive in-store experience—engaging, social, interactive—will animate shoppers' interest and keep them coming back for more. In essence, to meet shopper's expectations and counter on-line competition, retailers have to become as entertaining as restaurants, coffee shops, and movie theaters.

Some examples of forays into experiential shopping include browsing merchandise via an interactive video display, retail tables with touch-screen technology, personalized fitting-room lighting at the touch of a button, or a digital memory mirror to allow 360-degree viewing when trying on an outfit.

Which in-store technology would enhance the shopping experience?



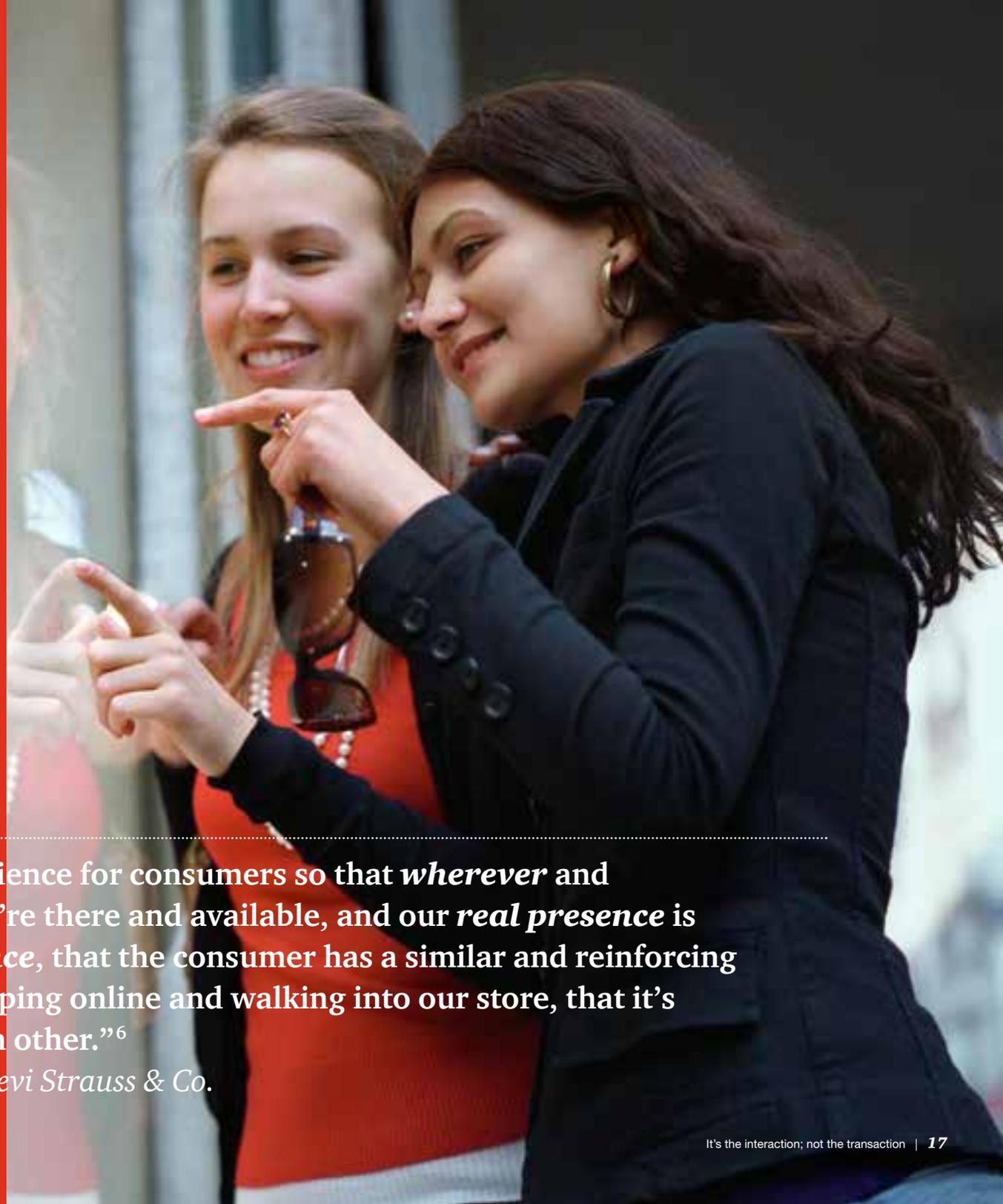
Ease of checkout is the #1 in-store technology shoppers want this holiday season

Ultimately, shoppers want an omnichannel experience—one that integrates both physical and digital options. Retailers have found that in exchange for discounts, shoppers are willing to permit retailers to track their activity while in the store, which facilitates a more personalized, cross-channel experience. It also allows retailers to foster an ongoing relationship with their customers.

As any holiday shopper knows, waiting in line to check out during the holidays can be excruciating. Almost half our shoppers surveyed say faster, hassle-free checkout is the #1 in-store technology that would improve the holiday shopping experience. However, only 28% of retailers surveyed believe faster check-out would enhance shoppers' in-store experience. Bridging this gap would enhance the overall experience that consumers expect when they shop this holiday.

“We’re trying to create the experience for consumers so that *wherever* and *whenever* they want to shop, we’re there and available, and our *real presence* is married with our *virtual presence*, that the consumer has a similar and reinforcing experience whether they’re shopping online and walking into our store, that it’s *synergistic* and *additive* to each other.”⁶

— Chip Bergh, President and CEO, Levi Strauss & Co.



Digital growth continues its upward trajectory

Retailers expect a 16% increase in digital revenues this holiday season

Consumers are definitely in favor of technology enhancing their shopping experience this holiday season. They will use mobile devices to search for products, track shipments, check prices in-store to get the best deal, and receive electronic discount coupons. They also want in-store technology to ease check-out lines.

And retailers, buoyed by massive growth in digital shopping during the 2014 holiday season—powered in large part by mobile traffic—are investing heavily in their digital businesses: 66% of retailers plan to increase their digital investment in the next 12 months. Areas of investment include mobile technology, advanced logistics aimed at faster real-time delivery, and enhanced purchase methods such as buy online and pick up in-store.

They expect their investment to pay off: 77% of retailers anticipate a 16% holiday season increase in digital revenues over last year. PwC believes, meanwhile, that online shopping *leaders* can expect a 40% to 50% increase in digital revenues this holiday season.



“The **mobile phone** is **redefining retail**. It is taking out the friction from the retail transaction and giving the consumer **unbelievable power.**”⁷
—Matt Hyde, CEO, West Marine

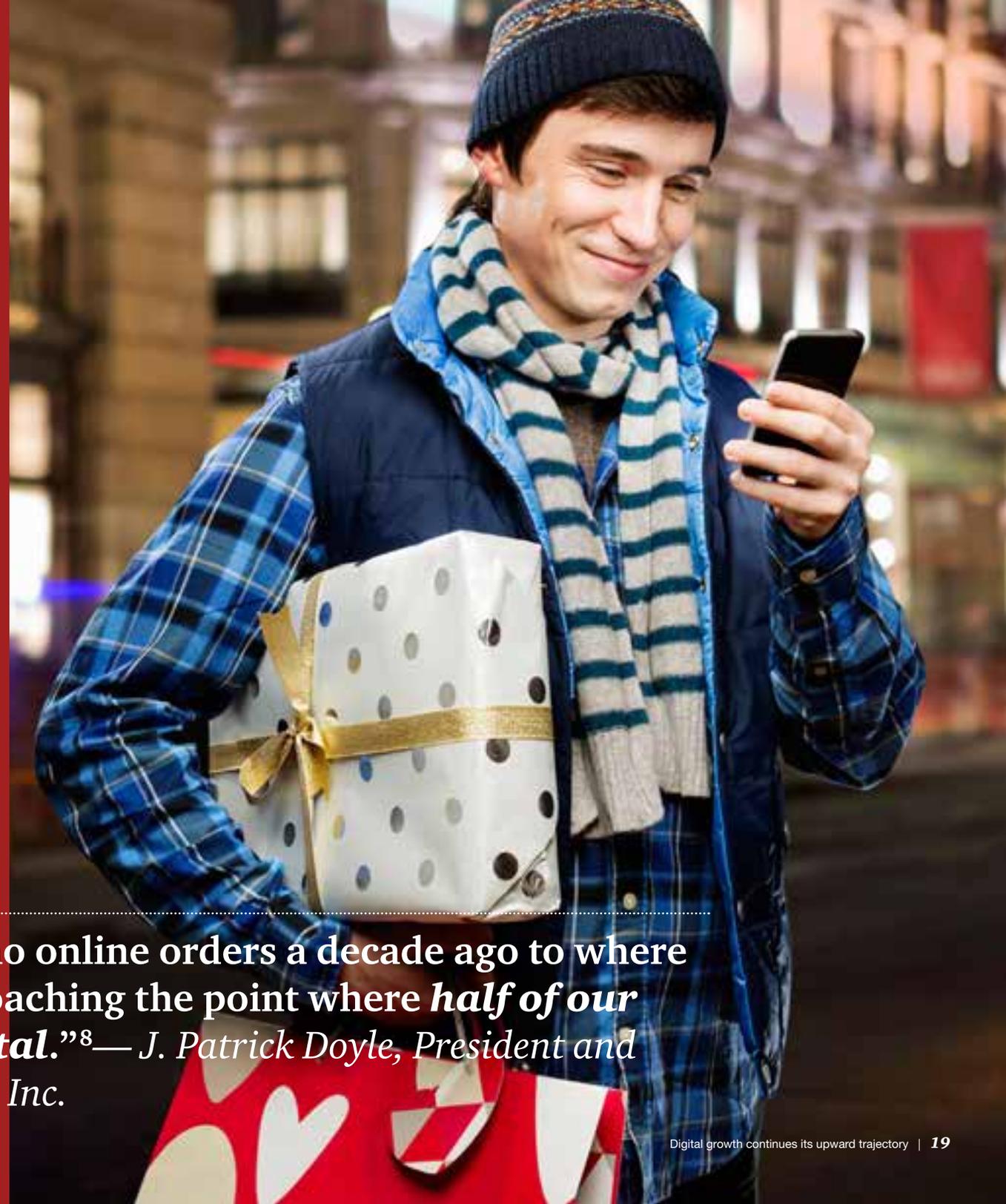


Consumers, however, draw the line at mobile payment: 61% prefer using traditional payment methods such as cash (preferred by shoppers with household incomes of less than \$50,000), credit card (preferred by shoppers with household incomes of more than \$50,000), debit card, gift card, or personal check. They don't use mobile payment in case personal information might be compromised during the process. Reassurances from retailers about the security of mobile payment would help assuage their concerns.

The vast majority of shoppers we surveyed—79%—plan to shop online via personal computer (desktop or laptop) with tablet and mobile phone a distant second at 6% each. When asked why, shoppers said they were concerned about cybersecurity and logistics:

- I'm worried about what's going to happen with the information.
- I'm really worried I'm going to mess it up. You might purchase 15 items at once.
- If you want to see a picture of the product, it's better on your laptop than trying to zoom in on your phone.

“We’ve gone from no online orders a decade ago to where we’re quickly approaching the point where *half of our business is in digital*.”⁸— J. Patrick Doyle, President and CEO, Domino’s Pizza, Inc.



What role does cybersecurity play?

Privacy, security, high-profile data breaches affect online, mobile shopping

Given several recent high-profile news accounts of data security breaches, with some occurring during past holiday seasons, consumers are understandably wary. More than 40% say a security breach in the last 12 months would affect holiday shopping at a particular retailer. Millennials are even more concerned (52%) than shoppers over 35 (38%).

Well aware of consumer concerns, both retailers (70%) and manufacturers (60%) are shoring up measures to address cybersecurity. Assuaging consumer concerns about cybersecurity might encourage more of them to adopt mobile payment, which 61% of shoppers say they will avoid in response to high-profile data security breaches as well as the fear of their phones being compromised during mobile payment.



42%

of consumers won't shop at a retailer that's experienced a **security breach**



70%

of retailers have **increased investment** to address cyber security concerns/measures compared to previous years

"I'm worried about what's going to happen with the information."—survey respondent, when asked if cybersecurity concerns affect consumer decisions

It's a mad, mad world

Retailers, manufacturers wary of mercurial holiday shoppers

The economy grew faster during the second quarter of 2015 than originally recorded—after earlier sluggishness due to harsh weather, a port strike, and the investment impact of lower oil prices. Solid job gains and low inflation, especially due to falling gas prices, have given US consumers considerably more purchasing power this year, while the amount of money spent to service debt has reached a new low relative to income.

Although consumer confidence has rebounded some this year along with most labor market metrics, several risks remain for the holiday shopping season. Wages have yet to break out of their low growth slump and negative headlines can weigh heavily on consumer sentiment, ultimately leading to tighter holiday spending.

Shoppers' history of skittishness in response to economic factors is top-of-mind with retailers. Retailers and manufacturers rank the economy as the greatest impediment to a successful holiday shopping season, followed by consumer confidence—a factor closely tied to the economy.



Salary and/or disposable income

64%

Cost of transportation (i.e. fuel/gas prices)

32%

Healthcare (insurance and medical costs)

29%



Q: Which of the following economic factors could affect holiday spending?

Base: 2,017

The majority of consumers rank salary and disposable income as the #1 factor influencing holiday spending. And those with household incomes of less than \$50,000 are the least optimistic about the economy. Further slowdown in China, additional stock market volatility surrounding a potential interest rate hike, and a weak employment report are just a few of the headline risks that could motivate shoppers to spend less this year.

It remains to be seen how ongoing volatility in the equity, currency and commodities markets—in the broader context of a complex geopolitical landscape—will affect holiday spending.

*Greatest impediment to a successful holiday shopping season, according to retailers and manufacturers: the **economy***



Endnotes

¹ Council of Economic Advisers, *15 Economic Facts About Millennials*, October 2014.

² PwC, *Total Retail*, 2015.

³ PwC, *Total Retail*, 2014.

⁴ PwC, *18th Annual CEO Survey*, 2015.

⁵ PwC, *Consumer Intelligence Series: What Kids Want*, 2015.

⁶ Ibid.

⁷ PwC, *Total Retail*, 2015.

⁸ PwC, *18th Annual CEO Survey*, 2015.

Strategic direction

Christopher Benko

Phil Bloodworth

Thomas Holman

Russell Moore

David Sharpe

Project team

Amy Aaron

Angela Chambliss

Amie Hinderliter

Karen Montgomery

Asha Nathan

Bruce Raksnys

Matthew Tuski

Krystin Weseman



Contacts:

Steven J. Barr

US Retail and Consumer Leader

1 415 498 5190

steven.j.barr@pwc.com

Byron Carlock Jr.

US Real Estate Practice Leader

1 214 938 4062

byron.carlock.jr.@pwc.com

Nick Hodson

US Retail Strategy Leader

1 415 653 3500

nick.hodson@pwc.com

